



**Department of Veterans Affairs
Office of Inspector General**

**Report of Audit
Congressional Concerns over
Veterans Health Administration's
Budget Execution**

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Executive Summary

Introduction

On February 8, 2006, Senator Daniel K. Akaka, the ranking member of the Senate Committee on Veterans' Affairs, and Senator Bill Nelson, member of the Senate Budget Committee, requested the VA Office of Inspector General (OIG) determine whether Veterans Health Administration's (VHA) capital budgets were being utilized or set aside for health care spending, possibly signifying that VA is facing a budget shortfall. On that same date, the Florida media reported that Senator Nelson received an anonymous complaint alleging that Veterans Integrated Service Network (VISN) 8 was anticipating a \$200 million shortfall and that Bay Pines VA Healthcare System (VAHCS) had a budget shortfall of over \$20 million. Based on the request we received, we audited the budget execution activities at three VISNs.

Results

We categorized the concerns and allegations into four issues:

- Is capital fund spending being deferred? Yes. We determined that VISNs were deferring non-recurring maintenance (NRM) projects and equipment purchases as a means of establishing a reserve should it be needed at the end of the budget cycle. The VISNs were not deferring the spending of capital funds for major and minor construction, major leases, and information technology (IT) projects.
- Is there a budget shortfall in VISN 8 and Bay Pines VAHCS? Yes. We determined that VISN 8 and Bay Pines VAHCS anticipated budget shortfalls of \$163.1 million and \$23.8 million, respectively, as of March 31, 2006. The VISN and its medical facilities have proposed actions that would impact other resources to eliminate the anticipated deficit. We did not identify a budget shortfall at VISNs 1 and 21 during the course of our audit.
- Will medical services spending exceed appropriations? No. Based on current spending rates at select VISNs, we determined that medical services spending should not exceed fiscal year (FY) 2006 appropriations.
- Are capital funds being used for medical services? No. Our audit determined that capital funds have not been used for medical services through March 31, 2006.

Recommendations

We recommend the Under Secretary for Health ensure that: (1) VISNs distribute allocated funds required for completing necessary NRM projects and purchasing needed equipment and monitor spending to ensure allocated funds are obligated, (2) VHA and VISN managers perform a joint assessment to determine whether VISN 8's proposed actions will have a negative impact on patient care and safety, (3) VHA monitor VISN 8 budget resources to ensure available funding meets requirements, and (4) VHA's CFO review all VISNs to ensure they are not anticipating a budgetary shortfall and if a shortfall is anticipated ensure available funding meets requirements.

Under Secretary for Health Comments

The Under Secretary for Health agreed with the findings in the report with qualifications and provided acceptable implementation plans which met the intent of the recommendations. (See Appendix A, pages 20–23, for the full text of the Under Secretary's comments.) We will follow up on the implementation of planned improvement actions until they are completed.

While agreeing with our recommendations, the Under Secretary qualified that NRM and equipment funding should be released to each facility before the third quarter but could not ensure that this would always occur. He also reported that VISN 8 does not anticipate a budget shortfall. The Under Secretary pointed out a budget shortfall or violation of the *Anti-Deficiency Act* would only occur if the VISN or facility requires the provision of additional funding from sources external to VA. The Under Secretary believed that reserve funding would be available internally to aid VISN 8 in meeting their resource requirements.

We agree with the Under Secretary's comments that a violation of the *Anti-Deficiency Act* would only occur if VA was required to seek additional funding externally, but it does not explain the fiscal operating conditions that VISN 8 was managing. For example, VISN 8 leadership internally identified concerns in their budget this fiscal year that caused the VISN Director and his facility Directors to plan to defer NRM expenditures and equipment purchases, increase MCCF revenues, delay the opening of three community-based outpatient clinics, and limit staff hiring in order to reduce their rate of spending, which VISN 8 had estimated to be a \$163.1 million shortfall during the audit. Interim actions by VISN 8 to mitigate this shortfall impact on the quality and timeliness of services provided to patients. The report points out the need for timely communication and better coordination among VHA headquarters and fiscal officials, VISN leadership, and facility managers to timely address budgeting needs so that actions, such as those taken in VISN 8, could be mitigated earlier in the budget year. Increasing communication, coordination, and the timeliness of responding to VISNs that are

required to take budgetary remediation efforts, such as those taken in VISN 8, would serve to improve the VA's budget execution process and resource monitoring controls.

(original signed by:)
MICHAEL L. STALEY
Assistant Inspector General
for Auditing

Introduction

Purpose

On February 8, 2006, Senator Daniel K. Akaka, the ranking member of the Senate Committee on Veterans' Affairs, and Senator Bill Nelson, member of the Senate Budget Committee, requested that VA OIG determine whether VHA capital budgets were being utilized or set aside for health care spending, possibly signifying that VA is facing a budget shortfall as in FY 2005. On that same date, the Florida media received an anonymous complaint alleging that VISN 8 is anticipating a \$200 million deficit and that Bay Pines VAHCS has a budget shortfall of over \$20 million. The media forwarded the complaint to our attention.

We categorized the concerns and allegations into four issues. They are: (1) whether capital fund spending is being deferred, (2) whether there is a budget shortfall in VISN 8 and at Bay Pines VAHCS, (3) whether FY 2006 medical services spending will exceed appropriations, and (4) whether capital funds are being used for medical services.

Background

VHA operates the largest health care delivery system in the country with nearly 204,000 employees supporting its mission. VHA is also the largest provider of health care education and training for medical residents and other health care trainees. In FY 2005, VHA provided medical care to approximately 5.4 million unique patients and obligated \$32.5 billion for medical care and research.

Three Tier Medical Care Appropriations. In FY 2004, Congress separated VHA's medical care funding into three appropriations: (1) medical services, (2) medical administration, and (3) medical facilities. In FY 2006, Congress appropriated \$28.7 billion to VHA for medical care funding. Congress appropriated \$22.5 billion (79 percent) for medical services, \$2.9 billion (10 percent) for medical administration, and \$3.3 billion (11 percent) for medical facilities.

- The medical services appropriation covers necessary expenses for furnishing inpatient and outpatient care and treatment to veterans and beneficiaries, including care and treatment in facilities not under the jurisdiction of VA; medical supplies and equipment; salaries and expenses of health care employees hired under Title 38, United States Code; and aid to State homes. In addition, funds deposited to the Medical Care Collections Fund (MCCF) may be transferred to medical services to remain available until expended.
- The medical administration appropriation is for necessary expenses in the administration of medical, hospital, nursing home, domiciliary, construction, supply, and research activities.

- The medical facilities appropriation is for the necessary expenses for the maintenance and operation of VHA facilities; administrative expenses in support of planning, design, project management, real property acquisition and disposition, construction, and renovation of any VHA facility; oversight, engineering, and architectural activities not charged to project costs; repairing, altering, improving, or providing facilities in VHA hospitals; leases of facilities; and laundry and food services.

Information Technology Appropriation. In FY 2006, Congress created an IT appropriation. The appropriation is for the expenses for IT systems and telecommunications support that includes developmental information systems, operational information systems, and capital asset acquisition of IT systems. Contractual and management costs associated with acquiring and operating these systems are covered by the IT appropriation. While Congress funded the IT appropriation with \$1.2 billion, VHA's medical administration appropriation was reduced from \$4.7 billion in FY 2005 to \$2.9 billion in FY 2006.

Other Funding Sources. In 1985, Congress authorized VHA to collect third-party payments from insurers who provided insurance coverage to nonservice-connected veterans. In 1990, Congress expanded VHA's authority to bill insurers for nonservice-connected treatment provided to service-connected veterans. *The Balanced Budget Act of 1997* allows VHA to retain all third-party reimbursements and created the MCCF for this purpose.¹ MCCF collections can be used to fund both medical care collection activities and to provide health care services to veterans.

Budget Formulation Phase. Historically, VHA budgets were based on expenditures that were adjusted for inflation and then increased based on proposed new initiatives. *The Departments of Veterans Affairs and Housing and Urban Development and Independent Agencies Appropriations Act of 1997* required the Secretary to develop a plan for the allocation of health care resources to ensure that veterans eligible for medical care who have similar economic status and eligibility priority have similar access to such care, regardless of where they reside.² The plan was to account for forecasts in expected workload and to ensure fairness to facilities that provide cost-efficient health care.

To account for forecasts in expected workload, VA uses actuarial projections and other estimates. The VHA's Enrollee Health Care Demand Model develops estimates of future veteran enrollment, enrollees' expected utilization of health care services, and the costs associated with that utilization. These 20-year projections are by fiscal year, enrollment priority, age, VISN, market, and facility. The VHA budget is formulated using the model projections.

¹ Public Law 105-33, August 5, 1997.

² Public Law 104-204, September 26, 1996.

Some VHA services are not modeled using this method. Demand estimates and budgets for readjustment counseling, dental services, the foreign medical program, Civilian Health and Medical Program of the Department of Veterans Affairs, the spina bifida program, and non-veteran medical care are developed by their respective program managers in a variety of ways.

The Budget Execution Phase. The budget execution phase begins when the President of the United States signs the appropriations bill. Once the appropriations bill is signed, the Office of Management and Budget (OMB) apportions Congressional appropriations to VA, including appropriations for VHA, the Veterans Benefits Administration, and the National Cemetery Administration. For a variety of reasons, agencies have a legitimate need for a certain amount of flexibility to deviate from their budget estimates. One way to deviate from the original budget estimate is to transfer funds. A transfer is the shifting of funds between appropriations and requires statutory authority.

VHA allocates general purpose funds to its 21 VISNs using the Veterans Equitable Resources Allocation (VERA) system. VERA is the modeling tool established in 1997 to match VA funds with workload. Under VERA, VISNs receive a set allocation for each veteran receiving care that is based on the cost and complexity of that care. The general purpose VERA components consist of basic care, complex care, high-cost patient allocations, geographic price adjustment, research support, education support, equipment, non-recurring maintenance, and floor adjustment. The floor adjustment provides that networks will receive a minimum allocation increase above the final amount received in the previous year. Allocations to medical facilities are determined by each VISN.

Program managers oversee the allocation of specific purpose funds. Specific purpose funds include prosthetics, mental health, homeless grants and per diem, State home, transplants, clinical trainees, and readjustment counseling.

FY 2005 Budget Shortfall. In FY 2005, VHA reported a \$975 million budget shortfall to Congress. On June 30, 2005, the VA Secretary testified before the House Committee on Veterans' Affairs that the data used to formulate the FY 2005 budget was derived from health care utilization in 2002, the last full year of data available before the 2005 budget formulation began. The actuarial model forecasted a 2.3 percent annual growth in health care demand in FY 2005. VA discovered that growth had accelerated through April 2005 to 5.2 percent above FY 2004 utilization, more than two times greater than the actuarial projections. This growth resulted in a substantial increase in workload and resource requirements.

In FY 2005, Congress approved a \$1.5 billion supplemental appropriation to provide timely, high-quality care to veterans. This included \$375 million to repay the prior year's appropriation carryover, nearly \$700 million for increased workload, and \$446 million for an error in the actuarial model in estimating long-term care costs. In May 2005, the

Committee members were told that VHA updated the actuarial model with more current and accurate data.

Prior Audit Work on FY 2005 Budget Shortfall. On February 6, 2006, the Government Accountability Office (GAO) reported that VA's process for formulating the medical programs funding requests was informed by, but not driven by, projected demand.³ GAO reported that an unrealistic assumption, errors in estimation, and insufficient data were key factors in VA's budget formulation process, all of which contributed to the supplemental appropriation request in FY 2005. GAO pointed out an unrealistic assumption of how quickly VA could implement a policy to reduce nursing home patient workload in VA-operated nursing homes for FY 2005. They also pointed out errors in estimating the effect of a nursing home policy to reduce workload in all three of its nursing home settings—VA-operated nursing homes, community nursing homes, and state-run nursing homes for veterans. GAO reported that insufficient data on certain activities contributed to the requests for additional funds. For example, inadequate data on the number of veterans returning from Iraq and Afghanistan resulted in an underestimate in the initial funding request.

Scope and Methodology

To address the objectives of the audit, we interviewed operations and financial management employees at VHA, three VISNs, and eight medical facilities.

Based on the request we received, we audited the budget execution activities at three VISNs. The VISNs we selected were: VISN 8, VA Sunshine Healthcare Network, Bay Pines, FL; VISN 21, VA Sierra Pacific Network, Mare Island, CA; and VISN 1, VA New England Healthcare System, Bedford, MA. Additionally, we selected one medical facility within each of the VISNs to conduct facility level testing. The North Florida/South Georgia Veterans Health System located in Gainesville, FL, was selected in VISN 8; the Palo Alto Health Care System (HCS) located in Palo Alto, CA, was selected in VISN 21; and the Connecticut HCS located in West Haven, CT, was selected in VISN 1. Due to additional concerns related to VISN 8, we also conducted fieldwork at the Bay Pines VAHCS, the Miami HCS, the VA Caribbean HCS in San Juan, the James A. Haley VA Medical Center (VAMC) in Tampa, and the West Palm Beach VAMC.

We assessed compliance with VHA and OMB policies. We reviewed financial data recorded in the Financial Management System (FMS)—VA's core financial computer accounting system—and the Automated Allotment Control System (AACS)—VHA's computer application used to track and manage budget dollars, employee levels, and

³ This issue is discussed in the GAO report *VA Health Care: Preliminary Findings on the Department of Veterans Affairs Health Care Budget Formulation for Fiscal Years 2005 and 2006* (Report No. 06-430R, February 2, 2006).

workload allocations. We also reviewed budget-related reports, budget operating plans, monthly variance reports, workload reports, budget carryover data, cost per unique patient data, monthly performance reports, and MCCF status reports. We reviewed capital asset plans, facility condition assessment reports, and equipment purchase status reports.

We reviewed a number of background documents on budget execution as well as GAO reports and Congressional testimony. On February 14, 2006, we attended the House Committee on Veterans' Affairs, Subcommittee on Health, budget hearing on VHA's budget request for FY 2007.

The period of review was October 1, 2005, to March 31, 2006. We conducted on-site work from February 27, 2006, to May 26, 2006. In planning and performing the audit, we relied on computer-generated data recorded in VA's FMS. Data from FMS is used in VA's Consolidated Financial Statements, which OIG and Deloitte and Touche LLP auditors found fairly reported VA's financial position from FY 1999 to FY 2005. However, we did not assess the reliability of the obligations recorded in FMS for the purpose of this audit due to a short time frame. We believe the data, when considered in the context that it is the sole source of VA's financial accounting information, it is widely used by the legislative and executive branches, and it is supported by other evidence gathered, was sufficiently reliable to meet the audit objectives and support our recommendations.

Our assessment of internal controls focused only on those controls related to our audit objective of VHA's budget execution for FY 2006. Our assessment was not intended to form an opinion on the adequacy of internal controls overall; we do not render such an opinion. In all other aspects, the audit was conducted in accordance with Generally Accepted Government Auditing Standards.

Results and Conclusions

Issue 1: Whether Capital Fund Spending Is Being Deferred

To address whether the spending of capital funds is being deferred, we considered whether NRM projects, equipment purchases, major and minor construction projects, major leases, and IT projects were being deferred. We conducted testing at VISNs 1, 8, 21, and at one medical facility within each of the three VISNs.

Findings

Our audit determined that spending of capital funds was being deferred; VISNs 1, 8, and 21 were each deferring NRM projects and equipment purchases. VISNs are not required to spend all funds allocated for NRM projects or equipment purchases on these items. However, as of March 31, 2006, these VISNs had only distributed \$5.2 million, an average of 8.9 percent of planned NRM funds, and \$2.1 million, an average of 2 percent of planned equipment funds, to their facilities. Because more funds were not distributed, facilities could not timely address all needed NRM projects or equipment needs. VISNs plan to spend the majority of NRM project and equipment funds during the third and fourth quarter of FY 2006 after they have addressed unforeseen emergencies. While spending for NRM projects and equipment was being deferred, we did not find that spending of capital funds for major and minor construction, major leases, and IT projects was being deferred.

(1) Are NRM projects being deferred?

Yes. Our audit of VISN Capital Asset Plans, pending NRM projects, and interviews with requestors of NRM projects concluded that NRM projects were being deferred.

The primary objective of the NRM Program is to maintain the safe, effective, and efficient function of VHA infrastructure.⁴ Each VISN is allocated funds for NRM projects based on workload, with an adjustment for differences in regional construction costs, through the VERA system. The allocated funds are considered general purpose funds, which can be spent on other needs. Therefore, VISNs are not required to spend funds on NRM projects.

In FY 2005, VHA allocated \$467 million in NRM funds to the 21 VISNs. These funds were included as part of the VISNs' medical facilities appropriation. During FY 2005, VISNs obligated \$443 million for NRM projects.

In FY 2006, VHA allocated through the VERA system and distributed \$384 million in NRM funds to the 21 VISNs. As of March 31, 2006, VISNs 1, 8, and 21 had not

⁴ VHA Directive 1002.1, "Non-Recurring Maintenance Program," dated September 2005.

distributed \$53.5 (91 percent) of the \$58.7 million they planned to spend on NRM projects. Consequently, some needed NRM projects have not been performed. In addition, VISN and facility managers told us they plan to spend a portion of their NRM funds on non-NRM needs such as maintenance personnel salaries, maintenance supplies, utilities, and unforeseen third and fourth quarter emergencies.

VISN 1. In FY 2006, VISN 1 was allocated \$19.6 million for NRM projects. The VISN plans to distribute \$17.3 million of these FY 2006 funds to facilities for NRM projects, leaving \$2.3 million to be spent on non-NRM needs. As of March 31, 2006, VISN 1 had distributed \$2.7 million for NRM projects, 13.8 percent of the VERA allocation and 15.6 percent of the approved amount. As shown in the VISN's budget operating plan, the VISN plans to obligate a majority of NRM funds in the fourth quarter. However, the availability of these funds for NRM projects will depend on what is needed to fund other non-NRM needs.

VISN 8. In FY 2006, VISN 8 was allocated \$32.4 million for NRM projects. The VISN plans to distribute \$25 million of these FY 2006 funds to facilities for NRM projects, leaving \$7.4 million to be spent on non-NRM needs. As of March 31, 2006, VISN 8 had distributed \$2.5 million towards NRM projects, 7.7 percent of the VERA allocation and 10 percent of the approved amount. VISN 8 officials stated that the remaining funds are being held back to cover potential unanticipated non-NRM needs later in the fiscal year. Therefore, the VISN is waiting to assess its financial position before deciding when and what amount of funds to distribute to the facilities for NRM projects.

VISN 21. In FY 2006, VISN 21 was allocated \$21.1 million for NRM projects. The VISN plans to distribute \$16.4 million of the FY 2006 funds to facilities for NRM projects, leaving \$4.7 million to be spent on non-NRM needs. VISN managers believed facilities had received adequate NRM funding in FY 2005. As of March 31, 2006, the VISN had not yet distributed NRM funds to the facilities. The VISN is waiting to assess its financial position before deciding when NRM funds will be distributed.

Needed NRM Projects. Although VISNs are given the option to not spend all of the NRM allocation on NRM projects, VISN delays in distributing funds impacts the medical facilities' ability to complete needed NRM projects. We identified one example from each of the selected VISNs to demonstrate the impact of delaying the distribution of NRM funds. Among the needed projects not completed at the sites we visited were the replacement of a Heating, Ventilation and Air Conditioning (HVAC) Primary Air Handling Unit (AHU), the renovation of a non-invasive cardiology unit, and the relocation of a podiatry clinic. The examples we cite were not funded because facility and VISN managers determined other projects had higher funding priority. The impact of the deferred projects is discussed in more detail below.

- The HVAC Primary AHU, which provides temperature, pressure differential, and humidity control in seven operating rooms, has failed on at least six occasions in the last fiscal year, resulting in some surgeries being postponed until leaks were repaired and the room cooled and dehumidified. A nurse at this facility reported at least one patient had to be moved during surgery because of leaks in the system.
- Renovation of a non-invasive cardiology unit is needed to accommodate a third echocardiography laboratory and machine as well as to increase space to meet current and projected workloads. The project would enhance and expand the facility's ability to handle both outpatients and inpatients needing electrocardiograms, stress tests, and other monitoring procedures. According to the facility's Chief of Staff, this unit is critically needed to reduce a growing waiting list and delayed diagnoses.
- A larger podiatry clinic located in the main hospital building is needed. Currently, the podiatry clinic is located in a building detached from the main hospital. The majority of the clinic's patients have mobility problems, and reaching the clinic from the main hospital is a hardship for them. In addition, many podiatry patients are diabetic and may require emergency medical treatment. On occasion, when emergency services have been required, treatment had to be provided in the hallway because the examination rooms are too small.

At each VISN we audited, NRM needs exceeded the amount VISN managers funded. VISNs are currently only funding what they consider to be emergent NRM projects with the FY 2006 NRM allocation. Based on each VISN's plan to assess its financial position before releasing NRM funds, we concluded that VISNs 1, 8, and 21 are deferring NRM projects, impacting the ability of the VISNs' facilities to address NRM needs. In our opinion, VHA should assess whether any deferred projects will effect the quality of patient care and VA's infrastructure.

(2) Are equipment purchases being deferred?

Yes. Our audit of VISN Capital Asset Plans, pending equipment purchases, and interviews with requestors of equipment items concluded that equipment purchases were being deferred.

Each VISN is allocated funds for equipment needs based on its workload through the VERA system. The allocated funds are considered general-purpose funds, which can be spent on other needs. Therefore, VISNs are not required to spend the funds on equipment.

In FY 2005, VHA allocated \$999 million in equipment funds to the 21 VISNs. These funds were included as part of the VISNs' medical services, medical administration, and medical facilities appropriations. VHA allocated an additional \$71 million worth of equipment funds as a result of supplemental funds Congress appropriated in

August 2005. These funds were included as part of the VISNs' medical services supplemental appropriation.

In FY 2006, VHA allocated \$962 million in equipment funds to the 21 VISNs. As of March 31, 2006, VISNs 1, 8, and 21 had not yet distributed \$111.4 million (98 percent) of the \$113.5 million they planned to spend on equipment. Consequently, some needed equipment items have not been purchased. In addition, these VISNs plan to spend some equipment funds on non-equipment needs such as salaries, supplies, and unforeseen third and fourth quarter emergencies.

VISN 1. In FY 2006, VISN 1 was allocated \$43.7 million to spend on equipment. The VISN plans to spend \$21.7 million on capital equipment with FY 2006 funds, 50 percent of the VERA allocation. The VISN plans to spend the remaining \$22 million on non-equipment needs. As of March 31, 2006, the VISN had distributed \$2.1 million in equipment funds to the facilities. As shown in the VISN's budget operating plan, the VISN plans to obligate the majority of equipment funds in the third and fourth quarter of FY 2006.

VISN 8. In FY 2006, VISN 8 was allocated \$93.8 million to spend on equipment. The VISN plans to spend \$66.8 million on equipment with FY 2006 funds, 71 percent of the VERA allocation. The VISN plans to spend the remaining \$27 million on non-equipment needs. As of March 31, 2006, the VISN had not yet distributed any equipment funds to the facilities. A VISN official stated they are waiting to assess their FY 2006 financial position later in the budget cycle before distributing equipment funds to the facilities.

VISN 21. In FY 2006, VISN 21 was allocated \$40.9 million to spend on equipment. The VISN plans to spend \$25 million on equipment with FY 2006 funds, 61 percent of the VERA allocation. The VISN plans to spend the remaining \$15.9 million on non-equipment needs. As of March 31, 2006, the VISN had not distributed any equipment funds to the facilities. VISN officials indicated they are holding funds in reserve and waiting to assess their FY 2006 financial position before distributing equipment funds to the facilities.

Needed Equipment. Although VISNs have the option to not spend all of their equipment allocation on equipment, delays in distributing funds for needed equipment impacts medical facilities. For instance, capital equipment needed but not purchased at the facilities we visited included Magnetic Resonance Imaging (MRI) equipment, catheterization laboratory equipment, and a Positron Emission Tomography (PET) scanner. The examples we cite were not funded because facility and VISN managers determined other equipment purchases had higher funding priority. Examples of needed capital equipment follow:

- At two locations, current MRI equipment is outdated. According to the requestors, the current equipment is slow in comparison to more modern MRI equipment and is

not capable of body imaging. Machines lacking this ability require some patients to be referred to non-VA facilities. In addition, these older machines do not perform efficiently, leading to increased patient wait times at one facility of 6–7 weeks. To address wait time issues, the facility is required to increase operating hours, leading to expensive labor contracts because staffing is scarce.

- A facility is sending patients requiring certain types of electrophysiology (EP) ablation procedures to an affiliated hospital on a fee basis due to lack of appropriate catheterization laboratory equipment at an average cost of \$16,972 per patient. Because of the increasing number of cardiac patients and volume of EP procedures, facility management has proposed acquiring another EP laboratory. Acquisition of this EP laboratory equipment would reduce the waiting list and the expensive cost of performing the EP ablation procedure at an affiliated hospital.
- A facility is currently leasing a mobile PET scanner one day per week at a cost of \$8,800–\$10,000 per week. Due to an increasing number of oncology patients, facility management is considering leasing the PET scanner one more day per week at an additional cost of \$6,950 per day. To avoid the expensive lease costs, the facility would like to purchase a PET scanner. Although the leased PET scanner meets the treatment needs of patients, a permanent scanner could also be used in the research program; the mobile PET scanner cannot be used for research.

At each of the VISNs we audited, equipment needs exceed the amount VISN managers funded. VISNs are currently only funding emergent equipment needs with their FY 2006 equipment allocations. Based on each VISN's plan to obligate a majority of its equipment funds in the fourth quarter of FY 2006, we concluded that VISNs 1, 8, and 21 are deferring capital equipment purchases impacting the ability of the VISNs' facilities to address equipment needs. Because of limited resources, the VISNs cannot fund all needed equipment. However, in our opinion, some of the equipment items that have not been purchased are needed now to better meet patient needs in an efficient and economical manner.

(3) Are other capital funds such as major and minor construction, major leases, and IT projects being deferred?

No. Our audit of VISN Capital Asset Plans and interviews with VHA and VISN officials determined that spending of capital funds on major and minor construction projects, major leases, and IT projects was not deferred. Major and minor construction, major leases, and IT projects are funded through restricted Congressional appropriations. VHA facilities do not have the authority to defer these projects, and facilities pay for major leases with funds from their medical facilities appropriation. As of March 31, 2006, VISNs 1, 8, and 21 were funding all approved leases.

Conclusion

We concluded that spending on NRM projects and equipment was being deferred. For example, as of March 31, 2006, the reviewed VISNs had distributed an average of 8.9 percent of planned NRM funds and 2 percent of planned equipment funds to their facilities. This has an impact on the facilities' ability to complete needed NRM projects and purchase equipment. We did not find that spending for major and minor construction, major leases, and IT projects was being deferred.

Recommended Improvement Action 1. To address issues pertaining to deferring the spending of capital funds, we recommend the Under Secretary for Health ensure that VISN Chief Financial Officers (CFO) distribute funds prior to the third and fourth quarter to allow facilities to complete necessary NRM projects and purchase needed equipment more timely. The CFOs should monitor spending to ensure allocated funds are obligated for NRM and equipment needs.

The Under Secretary for Health agreed with the recommendations. He reported that based upon ongoing communications and input from network and facility directors, the Deputy Under Secretary for Health for Operations and Management and the VHA CFO will provide oversight to ensure that funding is released by the networks to its facilities in a timely manner. The improvement actions are acceptable, and we will follow up on the completion of planned actions.

Issue 2: Whether There Is a Budget Shortfall in Veterans Integrated Service Network 8 and Bay Pines VA Healthcare System

To address whether there is a budget shortfall in VISN 8 and Bay Pines VAHCS, we conducted testing at VISN 8, Bay Pines VAHCS, the Miami HCS, the VA Caribbean HCS in San Juan, the James A. Haley VAMC in Tampa, the West Palm Beach VAMC, and the North Florida/South Georgia Veterans Health System to determine whether a budget shortfall was anticipated.

Findings

Our audit determined that unless significant actions to reduce spending are taken, VISN 8 and the Bay Pines VAHCS would have budget shortfalls. The VISN Director attributed this to the FY 2006 budget allocation being formulated based on FY 2003 data. The Director believes that the VISN patient workload and costs have increased since FY 2003. According to *The Anti-Deficiency Act*, Federal officials are not allowed to make payments or commit the Government to make payments at some future time for goods or services unless there are sufficient funds to cover the cost in full.⁵ We did not identify a budget shortfall at VISNs 1 and 21 during the course of our audit.

(4) Is there an anticipated budget shortfall in VISN 8?

Yes. Our audit of budget operating plans, budget distribution methodology, equipment and NRM allocation plans, network budget status reports, and interviews with VISN operations and financial management employees determined that as of March 31, 2006, VISN 8 management reported they were on a course to experience a budget shortfall totaling \$163.1 million.

The table below details the anticipated budget shortfall as of March 31, 2006, and the actions planned by managers to reduce the anticipated shortfall.

⁵ Public Law 97-258, September 13, 1982.

Table 1. Anticipated VISN 8 Budget Shortfall and Proposed Actions (in millions)

Facility Name	Anticipated Shortfall	Proposed Actions to Reduce Anticipated Shortfalls ⁶			Anticipated Shortfall After Adjustments
		Deferred NRM	Deferred Equipment Purchases	Other Initiatives	
Bay Pines VAHCS	\$23.8	\$0.0	\$10.4	\$10.2	\$3.2
Miami HCS	\$24.5	\$2.5	\$5.9	\$2.6	\$13.5
VA Caribbean HCS San Juan	\$17.6	\$0.6	\$8.6	\$8.2	\$0.2
James A. Haley VAMC	\$21.5	\$2.3	\$12.2	\$1.0	\$6.0
West Palm Beach VAMC	\$16.7	\$2.3	\$7.0	\$5.4	\$2.0
North Florida/South Georgia Veterans Health System	\$59.0	\$0.0	\$0.0	\$24.5	\$34.5
Total	\$163.1	\$7.7	\$44.1	\$51.9	\$59.4

Medical facility directors plan on deferring \$7.7 million (30.8 percent) of \$25 million in NRM projects and \$44.1 million (66 percent) of \$66.8 million in equipment purchases until sufficient funding is available. They also plan to reduce the shortfall by an additional \$51.9 million by increasing MCCF revenues, delaying the opening of three community-based outpatient clinics, reducing expenditures, and limiting hiring of Title 38 employees. These actions could result in reducing the estimated shortfall to \$59.4 million.

VHA policy requires VISNs to keep an appropriate contingency reserve. VISN 8's current contingency reserve is \$71.5 million. This amount could be used to cover the \$59.4 million shortfall.

Because the actions planned by management at the VISN's medical facilities to reduce the budget shortfall could impact services provided to veterans, VHA and the VISN need to more closely monitor the VISN's budget and progress toward reducing the shortfall throughout the remainder of FY 2006. In general, VHA's Budget Office monitors the medical care budget based on current obligations nationwide, while VISN CFOs are responsible for monitoring the budgets for their respective networks. VHA's Office for Operations and Management also has responsibilities for monitoring VISN performance, which includes budget execution.

Monitoring could be strengthened because the VHA Budget Office does not know all of the details about what is occurring at each VISN and facility. Instead, they rely on ad hoc feedback from the CFOs and Directors in the field, which may result in the Budget Office not having complete information about each facility's needs and planned future spending. We believe a coordinated monitoring effort between the Budget Office, the VISN, and the medical facility is necessary to strengthen budget execution monitoring.

⁶ Some of the proposed actions occurred prior to March 31, 2006.

(5) Is there an anticipated budget shortfall at Bay Pines VAHCS?

Yes. Our audit of medical cost documents, equipment requests, staffing level reports, budget operating plans, budget status reports, and interviews with healthcare system operations and financial management employees concluded that Bay Pines VAHCS will have a shortfall totaling \$23.8 million as of March 31, 2006.

The Bay Pines VAHCS Director plans to defer \$10.4 million (91.2 percent) of \$11.4 million in equipment purchases to reduce this shortfall until sufficient funds are available. The Director also plans to increase collections, limit hiring, and implement other spending reductions which would reduce the shortfall to a total of \$3.2 million.

The medical facility is only filling critical vacancies that had been part of the original budget operating plan. They have filled critical vacancies to avoid impacts to patient care activities, but facility managers reported that these staffing actions would likely increase the amount of time veterans would have to wait for appointments. The facility has delayed approved plans to expand bariatric surgery and cardiac catheterization capacity to minimize the budget impact this fiscal year. Bariatrics is a branch of medicine that deals with the treatment of obesity.

Conclusion

We concluded that VISN 8 and the Bay Pines VAHCS are projecting budget shortfalls of \$163.1 million and \$23.8 million, respectively. Medical facilities within the VISN have developed plans to reduce the shortfall to \$59.4 million, which may be covered by the \$71.5 million held in reserve by the VISN. However, in order to reduce the anticipated budget shortfall to \$59.4 million, facilities plan to defer NRM projects, equipment purchases, and take other actions that may impact on facility infrastructure and patient care.

Recommended Improvement Action 2. To address issues pertaining to a budget shortfall in VISN 8 and ensure fiscal compliance, we recommend the Under Secretary for Health ensure that:

- a. VHA and VISN managers perform a joint assessment to determine whether VISN 8's proposed actions will have a negative impact on patient care and safety.
- b. VHA's CFO monitor VISN 8's budget resources to ensure available funding meets requirements.
- c. VHA's CFO reviews all VISNs to ensure other shortfalls do not exist, and if a shortfall is anticipated, ensure available funding meets requirements.

The Under Secretary for Health agreed with the recommendations. The Under Secretary reported that the Deputy Under Secretary of Health for Operations and Management and the VHA CFO will coordinate to ensure that VHA and VISN managers perform a joint assessment to determine whether VISN 8's proposed actions will have a negative impact

on patient care and safety. The Under Secretary reported the VHA CFO routinely monitors network budget resources and VISN 8 has submitted no requests. He also reported that the VHA CFO is in the process of completing a review of all networks' financial statuses for FY 2006. The improvement actions are acceptable, and we will follow up on the completion of planned actions.

While agreeing with our recommendations, the Under Secretary qualified that NRM and equipment funding should be released to each facility before the third quarter but could not ensure that this would always occur. He also reported that VISN 8 does not anticipate a budget shortfall. The Under Secretary pointed out a budget shortfall or violation of the *Anti-Deficiency Act* would only occur if the VISN or facility requires the provision of additional funding from sources external to VA. The Under Secretary believed that reserve funding would be available internally to aid VISN 8 in meeting their resource requirements.

We agree with the Under Secretary's comments that a violation of the *Anti-Deficiency Act* would only occur if VA was required to seek additional funding externally, but it does not explain the fiscal operating conditions that VISN 8 was managing. For example, VISN 8 leadership internally identified concerns in their budget this fiscal year that caused the VISN Director and his facility Directors to plan to defer NRM expenditures and equipment purchases, increase MCCF revenues, delay the opening of three community-based outpatient clinics, and limit staff hiring in order to reduce their rate of spending, which VISN 8 had estimated to be a \$163.1 million shortfall during the audit. Interim actions by VISN 8 to mitigate this shortfall impact on the quality and timeliness of services provided to patients. The report points out the need for timely communication and better coordination among VHA headquarters and fiscal officials, VISN leadership, and facility managers to timely address budgeting needs so that actions, such as those taken in VISN 8, could be mitigated earlier in the budget year. Increasing communication, coordination, and the timeliness of responding to VISNs that are required to take budgetary remediation efforts, such as those taken in VISN 8, would serve to improve the VA's budget execution process and resource monitoring controls.

Issue 3: Whether Medical Services Spending Will Exceed Appropriations

To determine if spending will exceed the medical services appropriation, we considered whether (1) the current monthly rate of spending will exceed the funding sources for the medical services accounts and (2) the current monthly spending rate increased over the FY 2005 monthly spending rate. We conducted testing at VISNs 1, 8, and 21.

Findings

Our audit determined that the monthly rate of medical services spending at the three VISNs during the first two quarters of FY 2006 did not exceed available funding as of March 31, 2006. If the three VISNs continue to spend at the current rate, they should not exceed their FY 2006 medical services appropriation. Because testing was limited to specific allegations and to three VISNs, we did not project our results over the entire VHA medical services appropriation. We conducted testing at three VISNs based on the suggestion of Senators Akaka and Nelson.

(6) Does the current monthly rate of spending exceed the funding sources for the medical services accounts?

No. Our audit of financial data recorded in VA's FMS and AACS and reported in VERA determined that medical services spending does not exceed available medical services funding at the three VISNs. The table below shows the medical services rate of spending calculation for each of the VISNs. As depicted below, the current spending rates are less than the medical services funds available and are less than half of the annual estimated funds available.

Table 2. FY 2006 Medical Services Spending Through March 31, 2006 (in millions)

	VISN 1	VISN 8	VISN 21
Funds Available as of March 31, 2006	\$557.2	\$987.0	\$610.7
Amount Obligated as of March 31, 2006	\$500.6	\$873.2	\$506.0
Percent of Available Funds Spent as of March 31, 2006	89.8	88.5	82.9
Estimated FY 2006 Available Funds	\$1,204.8	\$2,158.2	\$1,222.5
Percent of FY 2006 Estimated Available Funds Spent	41.6	40.5	41.4

Available funds are the total of VERA allocations, specific purpose funds, MCCF goals, and estimated other revenue.

(7) Does the FY 2006 monthly spending rate show an increase over the FY 2005 monthly spending rate?

No. Our comparison of prior year spending rates to current year spending rates through March 31, 2006, disclosed current year spending rates are lower. Although the VISNs spent more through March 31, 2006, as compared to the same period in FY 2005, the

spending rates are lower in FY 2006 because available funding is greater. The table below summarizes the comparison of FY 2005 and FY 2006 spending rates through the second quarter of FY 2006.

Table 3. FY 2005 and FY 2006 Spending Through the Second Quarter of FY 2006 (in millions)

	VISN 1		VISN 8		VISN 21	
	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006
Amount Spent	\$469.2	\$500.6	\$816.6	\$873.2	\$483.9	\$506.0
Amount Available	\$490.0	\$557.2	\$848.1	\$987.0	\$512.9	\$610.7
Percent of Available Funds Spent	95.8	89.8	96.3	88.5	94.3	82.9

We attribute the higher spending in part due to supplemental funds Congress appropriated in August 2005.

Conclusion

We concluded that if the three VISNs continue to spend at the current rate, they should not exceed their FY 2006 medical services appropriation. Therefore, we make no recommendation.

Issue 4: Whether Capital Funds Are Being Used for Medical Services

In order to address whether capital funds are being used for medical services, we considered whether (1) capital funds have been transferred and (2) transfers of funds are non-compliant with established guidelines. Our results are based on testing conducted at VISNs 1, 8, and 21, and at VHA headquarters.

Findings

Our audit determined that capital funds have not been used for medical services because medical facility funds have not been transferred to the medical services appropriation and VHA managers do not anticipate that funds will be transferred from the medical facilities appropriation during FY 2006.

(8) Have capital funds been transferred to medical services?

No. Our audit of VHA budget records and interviews with VHA Office of Finance employees determined that capital funds had not been transferred to medical services as of March 31, 2006.

Even though VHA transferred funds from medical facilities and medical administration appropriations to the medical services appropriation in prior years, VHA's Deputy CFO told us they do not anticipate transferring funds in FY 2006 because the FY 2005 supplemental appropriation of \$1.5 billion was received entirely in the medical services appropriation. In addition, VHA has set aside reserves that could be used to fund a shortfall in the medical services allocations.

The table below depicts the transfers VHA made from the medical facilities and medical administration appropriations to the medical services appropriation in FYs 2004 and 2005. VHA transferred \$1.7 billion from the medical facilities appropriation and the medical administration appropriation to the medical services appropriation in FY 2004.

Table 4. FY 2004 and FY 2005 Transfers (in millions)

	Medical Services Appropriation	Medical Facilities Appropriation	Medical Administration Appropriation
FY 2004	\$1,663.0	(\$787.6)	(\$875.4)
FY 2005	\$684.0	(\$452.0)	(\$232.0)

In March 2006, VHA requested that Congress transfer \$370 million from the medical services appropriation to the medical administration appropriation. The transfer was not approved as of March 31, 2006.⁷

⁷ The transfer was approved on April 24, 2006.

(9) Are the transfers of capital funds non-compliant with established guidelines?

No. Our review of prior transfers from the medical facilities and medical administration appropriations disclosed transfer requests were submitted to and approved by Congress. Our review of the FY 2006 request for transfer of \$370 million from the medical services appropriation to the medical administration appropriation disclosed VHA requested Congressional approval.

Conclusion

After examining the available information, we concluded that capital funds have not been used for medical services. Therefore, we make no recommendations.

Under Secretary for Health Comments

**Department of
Veterans Affairs**

Memorandum

Date: June 15, 2006

From: Under Secretary for Health (10)

Subject: Report of Audit Congressional Concerns over VHA's
Budget Execution (EDMS 356299)

To: Assistant Inspector General for Auditing (52)

1. I have reviewed the draft report and concur with the recommendations with some qualifications.
2. While acknowledging that Veterans Integrated Service Networks (VISNs) are deferring non-recurring maintenance (NRM) projects and equipment purchases in Fiscal Year 2006 (FY 2006), I think it is important to recognize that there are legitimate management reasons for the timing of operational capital investments during any fiscal year budget cycle. Capable network and facility directors with a unique, strategic vantage point must have the freedom to exercise their leadership and make the necessary management decisions to enable an optimal level of patient care. As such, network directors are in constant communication with facility directors, and have the leadership responsibility to determine when funding should be timely released to each facility. These leaders also have the responsibility to ensure patient care is not endangered by delay of expenditures. When network and facility directors encounter situations in which patients may be negatively affected by the delay of capital expenditures, they must act promptly to effectively remedy the situation.
3. Despite my concurrence with your recommendations to coordinate budget monitoring between the VHA Budget Office, networks, and medical facilities in order to strengthen budget execution monitoring, I strongly disagree with your conclusion that there is an anticipated budget shortfall in VISN 8 and the Bay Pines VA Health Care System. VHA's networks and facilities can always use additional funding to meet its requirements. Technically, however, a budget shortfall only exists if the network or facility requires the provision of additional funding from external sources to

Page 2

OIG Draft Report, Report of Audit Congressional Concerns over VHA's Budget Execution (EDMS 356299)

prevent a violation of The Anti-deficiency Act. The draft report clearly states that VISN 8 will be able to manage without additional, externally-provided funding during FY 2006. Additionally, VISN 8 has reported to the VHA Chief Financial Officer (CFO) that it anticipates carrying over a net of \$1.8 million for the three appropriations into FY 2007. This indicates that the network neither has nor anticipates a budget shortfall. As such, I am confident that VISN 8 has received an adequate funding amount for FY 2006.

4. Thank you for the opportunity to review the draft report. VHA's complete plan of corrective action is attached. The plan provides a summary of specific initiatives that appropriately addresses each of the report's recommendations. If you have any questions, please contact Margaret M. Seleski, Director, Management Review Service (10B5) at (202) 565-7638.

(original signed by:)

Jonathan B. Perlin, MD, PhD, MSHA, FACP

Attachments

**VETERANS HEALTH ADMINISTRATION
Action Plan
OIG Draft Report, Report of Audit Congressional Concerns over VHA's
Budget Execution**

Recommendations/ Actions	Status	Completion Date
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We recommend that the Under Secretary for Health:

Recommended Improvement Action(s) 1: Ensure that VISN Chief Financial Officers (CFO) distribute funds prior to the third and fourth quarter to allow facilities to complete necessary NRM projects and purchase needed equipment more timely. The CFOs should monitor spending to ensure allocated funds are obligated for NRM and equipment needs.

Concur in part

Based upon ongoing communications and input from network and facility directors, the Deputy Under Secretary of Health for Operations and Management (DUSHOM) and the VHA Chief Financial Officer (CFO) will provide oversight to ensure that funding is released by the networks to its facilities in a timely manner. Optimally, this would be before the beginning of the third quarter. However, VHA cannot ensure this will always occur. The VHA Finance Committee will provide oversight of network financial execution and evaluate any situation where a network reports an inability to operate within its allocated budget.

Planned 12/01/06

Recommended Improvement Action(s) 2(a): Ensure that VHA and VISN managers perform a joint assessment to determine whether VISN 8's proposed actions will have a negative impact on patient care and safety.

Concur

DUSHOM and the CFO will coordinate to ensure that VHA and VISN managers perform a joint assessment to determine whether VISN 8's proposed actions will have a negative impact on patient care and safety.

Planned 8/14/06

Recommended Improvement Action(s) 2(b): Ensure that VHA's CFO monitor VISN 8's budget resources to ensure available funding meets requirements.

Concur

The VHA CFO already routinely monitors network budget resources to ensure funding meets requirements. The CFO tracks obligations on a monthly basis for all networks and compares them to total availability as well as to prior year obligations. VHA leadership and financial managers rely on network directors to communicate the need for additional resources and provide justification for the requirement of additional resources. To date, no such FY 2006 requests have been submitted by VISN 8 or any other network.

In Process

On-going

Recommended Improvement Action(s) 2(c): Ensure that VHA's CFO review all VISNs to ensure other shortfalls do not exist, and if a shortfall is anticipated, ensure available funding meets requirements.

Concur

The VHA CFO is in the process of completing a review of all networks' financial statuses for FY 2006. All networks have a need to transfer funding from the Medical Services account into the Medical Administration account and some have expressed a desire to transfer Medical Services funding into the Medical Facilities appropriation. There is adequate funding in the Medical Services account to cover these requested transfers. However, the final approval decision on these transfers rests with the Congress. The VHA CFO is working to finalize a request for transfer between these accounts. With that understood, all networks are projecting sufficient funding in the aggregate for FY 2006, and most networks anticipate carrying some funds from FY 2006 to FY 2007. Finally, it must be understood that VHA will operate within the funding levels approved by Congress.

In Process

On-going

OIG Contact and Staff Acknowledgments

OIG Contact	Michael L. Staley (202) 565-4625
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